

Message Text

UNCLASSIFIED POSS DUPE

PAGE 01 SEOUL 04528 01 OF 02 121102Z

11

ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 PA-04 PRS-01 USIA-15 AGR-20 FEA-02

INT-08 SAM-01 DRC-01 /186 W
----- 097807

R 120749Z JUL 74

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4820

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMCONGEN HONG KONG

UNCLAS SECTION 1 OF 2 SEOUL 4528

HONG KONG FOR TREASURY REP

E.O. 11652: N/A

TAGS: EGEN, KS

SUBJECT: KOREAN ECONOMY AT MID-YEAR: PRODUCTION AND
PRICES LEVEL OFF

REF: CERP

SUMMARY: ALTHOUGH STILL LIKELY TO ACHIEVE 8-10 PERCENT
GNP GROWTH IN 1974, KOREAN ECONOMY IS GIVING NUMEROUS
SIGNS OF SLOWING DOWN, MAINLY DUE TO WEAK EXPORT
DEMAND. WITH PRICES LEVELING OFF AFTER VERY RAPID
INCREASE, GOVERNMENT PLANS TO TAKE CALCULATED RISK OF
STIMULATING DOMESTIC DEMAND ON ASSUMPTION THAT EXPORT
DEMAND WILL STRENGTHEN BY END OF YEAR. FIRST HALF
FISCAL AND MONETARY PERFORMANCE WAS GOOD BUT STIMU-
LATIVE SECOND HALF POLICIES WILL PROBABLY PRODUCE LARGE
FISCAL DEFICIT AND CREDIT INCREASES LARGER THAN

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SEOUL 04528 01 OF 02 121102Z

AGREED WITH IMF. END SUMMARY

1. THIS IS FIRST OF TWO CABLES DESCRIBING KOREA'S CURRENT ECONOMIC SITUATION AND OUTLOOK BASED ON LATEST AVAILABLE DATA (JUNE FIGURES PRELIMINARY). SECOND CABLE DEALS WITH BALANCE OF PAYMENTS.

2. OUTPUT: AFTER AN OIL CRISIS PAUSE IN DECEMBER, KOREAN INDUSTRIAL PRODUCTION EXPANDED VERY RAPIDLY TO FEBRUARY PEAK (SEASONABLY ADJUSTED) ABOUT 20 PERCENT ABOVE LEVEL OF 1973 LAST QUARTER. PRODUCTION THEN DECLINED ABOUT 8 PERCENT THROUGH MAY (LATEST MONTH), INCLUDING 4 PERCENT DECLINE IN MAY (SEASONABLY ADJUSTED) WHICH HELPED TO LOWER BUSINESS FORECAST INDEX FROM RAPID TO MODERATE GROWTH FOR FIRST TIME SINCE JANUARY 1973. DUE TO ITS STEEP CLIMB DURING 1973, INDUSTRIAL PRODUCTION IN FIRST FIVE MONTHS OF 1974 WAS 42 PERCENT ABOVE SAME 1973 PERIOD. HOWEVER, THESE TOTAL FIGURES MASK A VERY MIXED PICTURE WHICH INCLUDES SHARP INCREASES IN STEEL AND SHIPBUILDING AND LEVEL OR DECLINING PRODUCTION IN MOST TEXTILES AND PLYWOOD. REFLECTING SOFTENING DEMAND AS WELL AS A GOVERNMENT-BACKED IMPORTED MATERIALS STOCK-PILING EFFORT, MANUFACTURING INVENTORIES ROSE FASTER THAN DELIVERIES DURING JANUARY-MAY, CAUSING FINANCING PROBLEMS. TOTAL CONSTRUCTION PERMITS IN FIRST FIVE MONTHS WERE 28.5 PERCENT ABOVE SAME 1973 PERIOD (ON AN AREA BASIS) BUT HOUSING PERMITS WERE UP 58 PERCENT (PARTLY IN REACTION TO INFLATION) WHILE INDUSTRIAL PERMITS WERE DOWN 13 PERCENT. TOTAL PERMITS FELL 12 PERCENT IN MAY. MOST INDUSTRIAL AND CONSUMER SHORTAGES HAVE BEEN ELIMINATED, BUT SUBSTANTIAL SPECULATIVE BUYING OF COAL AND RICE HAS OCCURRED.

3. GNP IS STILL EXPECTED TO INCREASE 8-10 PERCENT IN REAL TERMS IN 1974, DEPENDING ON CROPS. REFLECTING MOMENTUM OF 1973 BOOM, GNP IN FIRST QUARTER WAS 18.5 PERCENT ABOVE 1973 FIRST QUARTER. FIRST HALF GNP IS EXPECTED TO BE 13-15 PERCENT HIGHER AND SECOND HALF GNP ABOUT 5-6 PERCENT ABOVE SIMILAR 1973 PERIODS.

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SEOUL 04528 01 OF 02 121102Z

FOLLOWING HIS CURRENT TRIP TO THE U.S., DEPUTY PRIME MINISTER TAE, WAN SON IS EXPECTED TO ANNOUNCE NEW MEASURES (MAINLY FISCAL) TO STIMULATE DOMESTIC DEMAND IN SECOND HALF SO AS TO MINIMIZE FURTHER DECLINES IN TOTAL OUTPUT AND EMPLOYMENT ARISING FROM GENERALLY WEAK EXPORT DEMAND.

4. PRICES AND WAGES: AFTER 5 MONTHS OF VERY RAPID INFLATION WHICH BEGAN LAST DECEMBER, KOREAN PRICES HAVE GENERALLY LEVELED OFF SINCE APRIL. FROM END OF

1973 WHOLESALE PRICES ROSE 30.9 PERCENT TO MID-APRIL AND 32.4 PERCENT TO LATE JUNE 1974, WHILE SEOUL CONSUMER PRICE INDEX ROSE 16.2 PERCENT AND 16.1 PERCENT OVER SAME PERIODS. (AVERAGE JUNE 1974 WHOLESALE AND CONSUMER PRICES WERE 47.0 PERCENT AND 23.9 PERCENT ABOVE YEAR-EARLIER LEVELS.) THIS RAPID INCREASE AND LEVELING OFF WERE IN LINE WITH GOVERNMENT POLICY TO DIGEST EXTERNAL INFLATION AS RAPIDLY AS POSSIBLE. GOVERNMENT-ENCOURAGED INDUSTRIAL WAGE INCREASES AVERAGING 20-25 PERCENT ALSO TOOK PLACE IN FIRST HALF, WITH LARGE FIRMS GIVING INCREASES ABOUT TWICE THOSE OF SMALL FIRMS. WHILE FIRMS ARE BEING PRESSURED TO HOLD PRICE LINE, SOME FURTHER PRICE INCREASES ARE INEVITABLE. BARLEY PRICES WERE RECENTLY RAISED 30 PERCENT TO THE PRODUCER AND 25 PERCENT TO THE CONSUMER. SIMILAR OR HIGHER INCREASES APPEAR LIKELY FOR RICE NEXT NOVEMBER. SINCE KOREA'S ILL-TIMED STOCKPILING PROGRAM WILL ASSURE RAW MATERIALS AT PEAK PRICES FOR SOME MONTHS, LITTLE IMPORTED DEFLATION APPEARS LIKELY. BY YEAR END WHOLESALE PRICES WILL PROBABLY HAVE RISEN ROUGHLY 40 PERCENT AND CONSUMER PRICES ABOUT 25 PERCENT.

HABIB

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 SEOUL 04528 02 OF 02 121116Z

11

ACTION EA-14

INFO OCT-01 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-04 PRS-01 USIA-15 AGR-20 FEA-02

INT-08 SAM-01 DRC-01 /186 W

----- 097972

R 120749Z JUL 74

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 4821

INFO AMEMBASSY TOKYO

AMEMBASSY TAIPEI
AMCONGEN HONG KONG

UNCLAS FINAL SECTION OF 2 SEOUL 4528

HONG KONG FOR TREASURY REP

E.O.11652: N/A
TAGS: EGEN, KS
SUBJECT: KOREAN ECONOMY AT MID-YEAR: PRODUCTION AND
PRICES LEVEL OFF

REF: CERP

5. MONETARY: KOREA WILL SHIFT FROM POLICY OF MILD
MONETARY RESTRAINT IN FIRST HALF TO MORE STIMULATIVE
POLICY IN SECONDPHALF. DUE TO UNEXPECTED FISCAL
SURPLUS IN FIRS HALF, DOMESTIC CREDIT EXPANDED ONLY
16.4 PERCENT, WELL BELOW 22.0PERCENT CEILING IN THE
IMF STANDBY AGREEMENT. HOWEVER, CREDIT TO PRIVATE
SECTOR INCREASED 19.5 PERCENT, PARTLY TO FINANCE
INCREASED INVENTORIES, AND GOVERNMENT WILL ALLOW
EASIER CREDIT POLICY (PARTICULARLY TO SMALL BUSINESS
AND DEPRESSED INDUSTRIES) IN SECOND HALF. SINCE
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SEOUL 04528 02 OF 02 121116Z

SUBSTANTIAL FISCAL DEFICIT IS EXPECTED IN SECOND HALF,
TOTAL EOMESTIC CREDIT WILL ALMOST CERTAINLY EXCEED
THE 32.2 PERCENT INCREASE STIPULATED FOR 1974 IN
STANDBY AGREEMENT. AS IN OTHER COUNTRIES, BUSINESS
DEMAND FOR CREDIT HAS BEEN STRONG DESPITE PRODUCTION
SLOWDOWN. PARTLY DUE TO BANK RESTRAINT, VOLUME AND
INTEREST RATES ON CURB MONEY MARKET HAVE RISEN,
THOUGH BUSINESS LOAN ACTIVITY REMAINS WELL BELOW PRE-
AUGUST 1972 LEVELS. AFTER VERY LARGE INCREASED IN
1972-73, MONEY SUPPLY INCREASED ONLY 0.2 PERCENT
IN FIRST HALF, DUE TO CONTRACTIONARY EFFECTS OF
FOREIGN EXCHANGE DEFICIT AND FISCAL SURPLUS. AN
EXPECTED FOREIGN EXCHANGE BALANCE AND FISCAL DEFICIT
IN SECOND HALF, PLUS AMPLE CREDIT TO THE PRIVATE
SECTOR, SHOULD GENERATE A LARGE INCREASE IN MONEY
SUPPPPLY. EXCEPT FOR NEW SHORT-TERM FINANCING
COMPANIES, SAVINGS DEPOSIT INCREASES HAVE BEEN BELOW
TARGETS AND LAST YEAR. DESPITE THIS, GOVERNMENT
DOES NOT WISH TO RAISE INTEREST RATES SINCE THIS WOULD
BE CONTRARY TO PLANNED COUNTERCYCLICAL MEASURES.
(PRIME RATE REMAINS 15.5 PERCENT, WITH EXPORT RATE
AT 9 PERCENT.)

6. STOCK MARKET: DESPITE SLOW ACTIVITY AND DOWNWARD DRIFT

IN STOCK PRICES SINCE FEBRUARY, GOVERNMENT PROGRAM TO ENCOURAGE NEW SECURITY ISSUES REGISTERED MODERATE SUCCESS IN FIRST HALF, WITH BONDS EXCEEDING FULL-YEAR TARGET AND STOCK ISSUES LAGGING SOMEWHAT. LARGE NEW FLOTATIONS ARE PLANNED FOR NEXT THREE YEARS AS PART OF NEW GOVERNMENT PROGRAM TO REDUCE PRIVATE CONTROL AND BANK LOANS TO LARGE BUSINESS GROUPS. IT IS HOPED THAT PLANNED STIMULATIVE MEASURES WILL PROVIDE FAVORABLE CLIMATE FOR FIRST LARGE ISSUES SCHEDULED FOR NEXT SEVERAL MONTHS.

7. FISCAL: UNEXPECTEDLY LARGE BUDGET REVENUES IN FIRST HALF GENERATED LARGE BUDGET SURPLUS OF 122 BILLION WON AND OVERALL FISCAL SURPLUS OF 65 BILLION WON. (LATTER EXCLUDES ONE-TIME FERTILIZER ACCOUNT TRANSFER CHARGE OF 42 BILLION WON. GRAIN MANAGEMENT FUND (GMF) DEFICIT OF 65 BILLION WON LARGELY ACCOUNTED UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SEOUL 04528 02 OF 02 121116Z

FOR DIFFERENCE IN SURPLUSES.) INTERNAL TAX REVENUES INCREASED 110 PERCENT OVER YEAR EARLIER, PARTLY REFLECTING COLLECTIONS ON HIGH 1973 INCOMES AND PROFITS. TO OFFSET GROWING SLOWDOWN IN INDUSTRIAL ACTIVITY, THE GOVERNMENT IS EXPECTED TO ANNOUNCE SHORTLY (A) UNFREEZING OF 50 BILLION WON IN BUDGETED EXPENDITURES TEMPORARILY BLOCKED AS STABILIZATION MEASURE IN JANUARY AND (B) SUPPLEMENTAL BUDGET, TO BE SUBMITTED IN SEPTEMBER, PROBABLY CALLING FOR EXPENDITURE INCREASES OF 100 BILLION WON OR MORE TO UTILIZE THE ANTICIPATED REVENUE SURPLUS. A 30 PERCENT PAY RAISE AND YEAR-END BONUS FOR CIVIL SERVANTS (ANNOUNCED BY PRESIDENT PARK JULY 11) WILL ACCOUNT FOR ABOUT 30 PERCENT OF SUPPLEMENTAL INCREASE, WITH INCREASED DEFENSE NEEDS, ANTI-RECESSION SPENDING, AND OTHER COST INCREASES ACCOUNTING FOR REST. WHILE BUDGET FOR ENTIRE YEAR WILL BE INBALANCE (AS ORIGINALLY PLANNED), MAJOR SHIFT FROM SURPLUS TO DEFICIT IN COMING SIX MONTHS WILL HAVE SUBSTANTIAL STIMULATIVE EFFECT. IN ADDITION, GMF DEFICIT WILL BE PERHAPS 30 BILLION WON LARGER THAN 140 BILLION WON ORIGINALLY PLANNED, DUE TO HIGHER RICE AND BARLEY SUBSIDIES. AS RESULT, GOVERNMENT BORROWING FROM CENTRAL BANK IS LIKELY TO EXCEED INCREASE OF 133 BILLION WON PERMITTED BY IMF STANDBY AGREEMENT.

8. COMMENT: IN REACTION TO OIL CRISIS KOREAN ECONOMY HAS EXPERIENCED COMMON PATTERN OF RAPID INFLATION, LOSS OF FOREIGN EXCHANGE RESERVES, TIGHT MONEY AND PRODUCTION SLOWDOWN. ON KEY ASSUMPTION

THAT EXPORT DEMAND WILL PICK UP WITHIN SIX MONTHS,
ROKG HAS APPARENTLY DECIDED TO ADOPT TEMPORARY
COUNTERCYCLICAL MEASURES TO AVOID BUSINESS
DIFFICULTIES AND UNEMPLOYMENT AT RISK OF AGGRAVATING
INFLATION AND BALANCE OF PAYMENTS. THIS CALCULATED
RISK IS IN LINE WITH GOVERNMENT DETERMINATION TO
MAINTAIN HIGH RATE OF GROWTH AND AVOID DOMESTIC
DISCONTENT. KEY TO SUCCESS WILL BE INTERNATIONAL
DEMAND AND COMPETITIVENESS, WHICH HAVE ALWAYS
RESCUED KOREA IN PAST. STIMULATIVE MEASURES ARE
UNCLASSIFIED

UNCLASSIFIED

PAGE 04 SEOUL 04528 02 OF 02 121116Z

NOT LIKELY TO PROVE POPULAR WITH IMF, WHICH WILL
PROBABLY WITNESS STANDBY CREDIT CEILINGS BROKEN
FOR THIRD YEAR IN ROW. UNFORTUNATELY, IMF MID-YEAR
REVIEW TEAM ORIGINALLY SCHEDULED TO VISIT KOREA WAS
CANCELLED DURING SLOW PROCESS OF APPROVING STANDBY.
(SEE ALSO SEPTTEL ON BOP.)
HABIB

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GNP, CERP, AGRICULTURAL PRODUCTION, INFLATION, TRADE, WAGES, COST OF LIVING, ECONOMIC PROGRAMS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 12 JUL 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SEOUL04528
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740186-0879
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740753/aaaabtgl.tel
Line Count: 300
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: CERP
Review Action: RELEASED, APPROVED
Review Authority: martinjw
Review Comment: n/a
Review Content Flags:
Review Date: 28 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <28 OCT 2002 by ThomasVJ>; APPROVED <16 JAN 2003 by martinjw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KOREAN ECONOMY AT MID-YEAR: PRODUCTION AND PRICES LEVEL OFF
TAGS: EGEN, KS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005